

## Section Answer Keys

### Chapter 36 Financing the Business

#### Section 36.2 Financial Statements

##### Review Key Concepts

1. The major categories calculated on an income statement are total sales, net sales, cost of goods sold, gross profit, business expenses (operating expenses and fixed expenses), net income from operations, net profit or loss before taxes, net profit or loss after taxes.
2. The formula for determining gross profit is:  $\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$ .
3. The purpose of a balance sheet is to provide a summary of a business's assets, liabilities, and owner's equity.

##### Practice Academics

###### English Language Arts

4. Students should write a one-page summary explaining the functions of money and the concept and importance of effective cash flow management. The report also should discuss how a business can improve its cash flow. Cash flow statements are vital to businesses because they help in determining when cash is expected to come in and when it will need to be paid out. This allows the business to determine if there will be enough cash to pay bills and employees, and also to cover any unexpected expenses that may occur. By creating a cash flow statement, you can determine if it might be necessary to locate funds elsewhere, for example by obtaining a short-term bank loan, before the situation becomes a crisis. Ways of improving cash flow are to invoice as soon as the work is done, to offer discounts for quick payment, to keep close track of any accounts that are overdue and attempt to collect them as quickly as possible, and to not pay your bills until they are actually due.

###### Mathematics

5. Net sales = \$415,800 ( $\$425,000 - \$9,200$ ). Gross profit = \$228,800 ( $\$415,800 - \$187,000$ ).  
Net income from operations = \$150,500 ( $\$228,800 - \$78,300$ ).